



**(SME) Market Development Project
(ASME)**

REPORT ON SHORT-TERM TECHNICAL ASSISTANCE ON

**BUSINESS SKILLS DEVELOPMENT
FOR ARMENIAN BUSINESS SERVICE PROVIDERS**

PREPARED BY

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Background

The Armenia Agribusiness SME Market Development Project (ASME) is designed to increase market opportunities for private Armenian agribusiness. As a part of the process leading to this goal, DAI-ASME will identify markets where existing and new agribusiness products can be sold, and develop strategies by which Armenian companies can take advantage of these opportunities. DAI-ASME will review and address constraints that interfere with the ability of Armenian firms to achieve growth in these markets, and will design and implement measures to alleviate those constraints.

Significant to the long-term, successful development of the Armenian agribusiness community will be the capability of locally based Business Service Providers (BSPs) to provide ongoing advice and consultations. A critical component of all development work is attaining sustainability. Upon completion of the DAI-ASME project, it is imperative that marketing and business function assistance remains available at a high level if the agribusiness community is to sustain the gains provided by DAI-ASME. Local BSPs must be positioned and have the requisite skills to provide that assistance.

The framework for the DAI-ASME-BSP relationship is defined in Capacity-Building Agreements (CBA) that DAI-ASME has signed with 25 BSPs. Based on these CBAs, BSPs have the opportunity to participate in commercially oriented interventions, including performance contracts and mentoring opportunities that will improve their skills and capabilities. An element of the DAI-ASME/BSP relationship involves upgrading the capabilities of the local BSPs to more effectively provide assistance to Armenian SMEs.

DAI-ASME has launched a market-oriented program to upgrade existing and build new skills within the local business services community. The aim of the program is to facilitate mutually supportive commercial relationships between BSPs and businesses, while at the same time improve the capabilities of BSPs to provide higher-end services and expand their experience and range of expertise.

Objective

Critical to the effective delivery of business services to prospective clients is having an efficiently managed and well-organized organization. In a recent survey conducted by DAI-ASME, the BSPs placed assistance in building sound, well-structured organizations that can competitively deliver consultancy services to their clients highest need. The focus of this STTA was twofold:

- To assist BSPs to improve the management of their organizations in order for them to better deliver a high level of services in a competitive manner, and
- To design a capacity building, training program to address organizational and other weaknesses of selected Armenian BSPs

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Summary of Work Performed and Timetable

The DAI staff person responsible for completing the Scope of Work, Stephen C. Silcox, began work on this assignment on November 11, 2002 and spent three days in the home office in Bethesda reviewing relevant project documents provided by AMSE staff. He traveled to Armenia over the weekend of November 16/17th and arrived in Yerevan in the early morning of November 18, 2002.

A number of interviews with BSPs in Yerevan had been arranged by AMSE staff to be held the first two days after Silcox's arrival. Most of these were conducted as scheduled. A few others were held later in the week. BSPs interviewed were as follows:

- HAI Consult
- Business Support Center
- Ameria Consulting
- Arlian Consulting
- Alpha Plus
- CIVIS
- K Partners
- Sed Merced

In addition, Silcox met with the Director of the SME Development Center, a parastatal organization recently established by the government to promote SME development, and with the Director of the Academy for Educational Development (AED) Program in Armenia to discuss training programs with and for BSPs supported by AED through their program.

The rest of the time in Yerevan was spent analyzing the situation in Armenia for BSPs, determining potential areas for training and delivery mechanisms for that training, and preparing for the workshop conducted at the end of the assignment.

Steve Silcox, accompanied by the COP for ASME, Tom Rulland, briefed the CTO for the project, John Carracciolo, on his findings and initial recommendations for the training program for BSPs on November 22, 2002.

Finally, a workshop on "How to Market Business Services" was conducted on November 26, 2002 for BSPs who had signed CBAs with ASME. There were eleven participants in the workshop, representing seven BSPs.

The consultant departed Yerevan on the morning of November 27, 2002 and returned to the U.S.

As a follow-up activity, the consultant was requested to facilitate a presentation by DAI staff in the Bethesda Headquarters to a visiting Armenian delegation on December 3, 2002 on competitiveness, public-private partnerships and SME finance.

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Findings and Analysis

These findings and analysis are based on a review of a number of documents prepared by previous DAI consultants and others regarding the BSP market in Armenia and with analyses of specific BSPs, as well as from personal interviews with the BSPs mentioned above.

Finding #1: The BSP market in Armenia can be subdivided into three tiers:

- **Higher Tier:** These BSPs have well-educated staff with substantial experience in private sector development and are currently providing services for large Armenian and foreign companies and investors. Payments for these services are principally fee-based and at full cost-recovery levels with a reasonable profit. All of these firms are for-profit and include and compare with international consulting firms such as PriceWaterhouseCoopers (now IBM) and Booz Allen Hamilton. There are only a handful of BSPs in this category and they do not require any significant assistance from donors to be viable. They also provide services for donors, but they typically provide higher end, macroeconomic analysis services.
- **Mid-Level Tier:** These BSPs also have well-educated staff but have limited experience in private sector development and are providing services to a mix of clients, principally at the small and medium enterprise level, with occasional services provided to larger businesses. The services provided to the medium and large enterprise level tend to be technical, often dealing with ISO certification issues and other export-related services. However, these BSPs are still searching for their niche in the market and provide a considerable amount of basic business skills training to small and microenterprises with fees paid mostly by donors. A number of these BSPs received considerable assistance from donors, especially EU/TACIS, during their start-up phase. These BSPs include both for-profit and not-for-profit firms and have the most promise for growth and maturity and long-term financial viability apart from donor programs. The BSPs in this tier number approximately 8-10 firms.
- **Lower Tier:** These BSPs tend to provide services to the lower end of the enterprise market, dealing mainly with microenterprises and some small enterprises. Their services deal mainly with basic business skills training and consulting and their clients are largely determined by donors who pay for most of the services of these BSPs. The leadership of some of these BSPs is strong, but these companies or organizations often lack depth in their staff in terms of broad private sector experience. They tend to be not-for-profit organizations that have a social orientation and thus, tend to be attractive to some donors for targeted training of disadvantaged groups. A few of the BSPs in this tier may have some potential to become financially sustainable over the long-term, but most will probably disappear when donor or other government subsidies are not available. The majority of the BSPs in Armenia fall in this category.

Finding #2: The BSP Market is heavily concentrated in Yerevan with only a few BSPs providing services in the regions and which tend to be highly subsidized by donors.

Most BSPs are receiving most of their revenues from Yerevan-based businesses. This is to be expected in a country with the demographics of Armenia. The industry clustering necessary to make training profitable is present only in Yerevan. Some BSPs are providing training and consulting to small and microenterprises outside of Yerevan, but only a small portion of their revenues come from enterprises outside of Yerevan. This shortage of services outside of the capital city is typical of countries where the capital city is the predominant economic center of the country. BSPs follow economic activity and unless the potential for economic growth exists outside of the capital city, subsidies tend to be the principal means of providing outreach services by BSPs to enterprises outside of the capital city.

Finding #3: Government support for SME development appears to be on the increase.

The GOA recently formed the SME National Development Center (NDC) to promote and coordinate governmental support for SME development. This portends positive results in SME development, including improved and broadened business development services. ASME has good relationships with the Director of the NDC and recently funded a study tour to the U.S. for representatives of the NDC and the Armenian private sector, including associations and BSPs.

Finding #4: BSPs need to specialize more in order to find their market niche and to command larger fees.

The BSP market in Armenia is similar to the BSP market in other post-Soviet economies. It enjoyed rapid growth after the fall of the Soviet Union, with heavy subsidies from the EU and other donors. However, many of the BSPs have tended to focus on the same clients and to provide many of the same services. This is understandable in a situation where economic growth has been limited and where most businesses are still in the small to microenterprise level. However, a few key BSPs identified market niches at the higher end of the enterprise spectrum and have capitalized on services to larger, export-oriented clients. The Mid-Level Tier of BSPs has begun to understand this market dynamic and is now hustling to develop their capacity in niche business service markets for small and medium enterprises, while maintaining their capacity to serve donor-oriented business service markets.

Conclusions & Recommendations

1. **ASME should adapt its programmatic support for BSPs to concentrate on those BSPs in the Mid-Level Tier and assist them to find their market niche.** Although it should not necessarily exclude Lower Tier BSPs from any training programs, the content for the training should be pegged at the Mid-Level Tier BSPs. This will maximize the impact of ASME's support to the BSPs. The training programs for BSPs as presented in Annex 1 should be implemented as a start and should be provided both to BSPs and to individual trainers/consultants. This list of training programs to be conducted over the next year was

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included in a broader training program list provided by the ASME Project to USAID in November. The first session entitled “Marketing BSP Services” was conducted during Silcox’s consultancy.

2. **ASME should adopt the principles of *market development of Business Development Services (BDS)* in how it supports training, consulting and other support to BSPs.** In other words, ASME should be more concerned about developing the BDS market and less concerned about the viability of specific firms or institutions. This is consistent with the practical approach that ASME is already taking. This is also the approach that is being promoted by USAID in newer projects around the world and is consistent with the approach espoused in USAID/Armenia’s latest RFP on the Armenia Microenterprise Development Initiative. This could involve charging fees to BSPs and individual trainers/consultants for capacity-building exercises offered by ASME. As with fees charged by BSPs to individual SMEs, these need not fully cover the costs of the programs, especially for international consultants/DAI staff. However, this approach would get the BSPs and individual trainers/consultant used to the idea that they should pay for capacity building as well.
3. **The *BDS market development* approach implies a focus not only on firms or institutions, but also on individual trainers and consultants.** Upgrading the skills of individual trainers and consultants will further the development of the industry and make more potential contractors available to the BSPs that eventually survive in the marketplace. The BSP market in developed economies survives because it contains pools of experienced trainers and consultants who are available to work with various companies and institutions. Companies and organizations can come and go, but the BSP industry remains if the pool of trainers and consultants is sufficiently large. Achieving the critical mass of experienced individual trainers and consultants in Armenia that will permit business skills and related services to perpetuate is an output of any BDS market development approach. ASME should adapt its BSP support program to focus on this output. Possible activities include developing an individual certification program for Armenian trainers and consultants, based upon the successful completion of various courses of study.
4. **Voucher programs can be an important tool in developing the BDS market and ASME could draw on other existing voucher programs in the region.** Voucher programs can provide incentives to SMEs to try various business services and can help the BSP industry to adapt its offerings to meet market demands. These programs are useful in countries that have fledgling BSP markets with BSPs that are having problems attracting paying clients. Later in the year 2003, ASME could investigate the possible use of vouchers to develop the BDS industry in Armenia. DAI’s BIZPRO Project in Ukraine has implemented a voucher program over the past two years and could provide lessons learned to ASME in the development of a similar program in Armenia. This could involve visits to Ukraine by interested parties and/or visits to Armenia by implementers of the voucher program in Ukraine.

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5. **ASME should consult with selected BSPs who have expressed interest in developing and organizing a forum for the discussions of issues common to all BSPs to determine the feasibility of such a forum, both for BSPs and individual trainers/consultants in the BDS field. If such a forum is found to be feasible, ASME could provide support to that forum.** ASME could assist the DNC to determine how it might provide support to the forum. DAI/Bethesda could provide assistance in this process, drawing on lessons learned from other projects in the region. This forum could serve an important role in the development of the BDS industry and might serve as a vehicle for assistance from the DNC to the industry. Care must be taken to assure that this forum is created by the BSPs themselves and not be a donor or project creation. Models exist for this type of forum in other countries in the region. The association of business/trade associations formed by Apricot Plus is a good start. ASME could provide some technical assistance to determine interest in such a forum and suggest types of organizations that it might take.
6. **The Higher Tier of Armenian BSPs should be utilized as much as possible when they can provide capacity building services to the Mid-Level Tier.** They are better placed to deliver training that is more culturally and contextually attuned to the Armenian BSPs when they have the skills and experience to conduct capacity building exercises. International experts should be used only when those skills or experience are not available from Higher Tier Armenian BSPs or on topics where the Mid-Level BSPs may feel that other Armenian BSPs have a conflict of interest in providing specific training.
7. **Successful BSPs from other countries in the region might be asked to conduct capacity building exercises for Armenian BSPs.** This methodology was used successfully by USAID/Kiev through bringing successful Polish BSPs to Ukraine to conduct training courses for Ukrainian BSPs on increasing export trade to Poland. DAI could use its contacts in other countries in the region to identify potential BSP leaders that might come to Armenia to deliver a seminar on a specific market niche for BSPs or on any topic that might interest the BSPs or individual trainers/consultants. The participants in the ASME study tour to Poland might be asked if they would be interested in any follow-up activities where Polish consultants or BSPs could add to lessons learned during the study tour or could provide information to additional BSPs/consultants/trainers that did not participate in the study tour. See suggested training sessions in Annex 1.

Deliverables

The consultant provided a draft list of proposed training programs for BSPs for FY2003 for inclusion in a draft training program from ASME to USAID on November 21, 2002.

The consultant conducted a workshop on “Marketing Business Services” on November 26, 2002 for eleven representatives of seven BSPs that had signed Capacity Building Agreements (CBAs) with ASME.

The consultant served as facilitator for a workshop in DAI headquarters in Bethesda on December 3, 2002 that was organized by the ASME Project for an Armenian study group of representatives of business associations, BSPs and the National Center for SME Development.

This report with analysis and recommendations for ASME training programs to build the capacity of Armenian BSPs for FY2003 was submitted to ASME in draft on December 23, 2002 and, with modifications made from comments on the draft, in final on January 7, 2003.